



CHAIR
BILL CAMPBELL
Supervisor
Third District

March 14, 2007

VICE CHAIR
JOHN WITHERS
Director
Irvine Ranch Water District

TO: Local Agency Formation Commission

ROBERT BOUER
Councilmember
City of Laguna Woods

FROM: Executive Officer
Assistant Executive Officer
Senior Project Manager

PETER HERZOG
Councilmember
City of Lake Forest

SUBJECT: Proposed LAFCO Budget for Fiscal Year 2007-2008

JOHN MOORLACH
Supervisor
2nd District

BACKGROUND

ARLENE SCHAFER
Director
Costa Mesa
Sanitary District

Government Code Section 56381(a) requires the Commission to adopt a proposed budget for all LAFCO operations by May 1st of each year. Following adoption, the proposed budget is distributed for review and comment to the Board of Supervisors, each city, the City Selection Committee, each independent special district, and the Independent Special Districts of Orange County (ISDOC) Selection Committee. The final LAFCO budget is required to be adopted by the Commission no later than June 15, 2007.

SUSAN WILSON
Representative of
General Public

ALTERNATE
PAT BATES
Supervisor
5th District

Proposed Reduction in Funding Agency Contributions for FY 07-08

ALTERNATE
PATSY MARSHALL
Councilmember
City of Buena Park

During the FY 2005-2006 budget cycle, the Commission adopted a three-year budget which covers (FY) 2005-2006, 2006-2007 and 2007-2008. The three-year budget included a six percent (6%) increase for each of the three fiscal years (see Table 1 below). The proposed budget for FY 2007-2008, however, proposes a reduction to the previously approved six percent (6%) increase; staff is recommending a four percent (4%) increase. The proposed decrease is possible because of the recent staff reductions and related savings in salaries and benefits.

ALTERNATE
RHONDA MCCUNE
Representative of
General Public

ALTERNATE
CHARLEY WILSON
Director
Santa Margarita
Water District

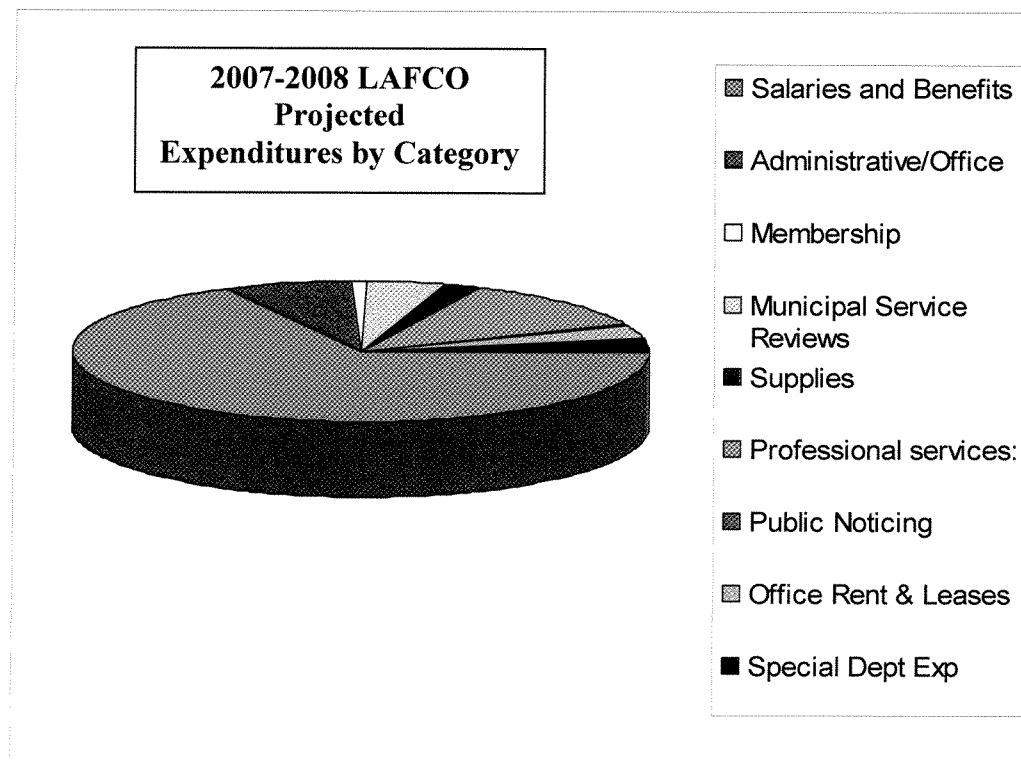
JOYCE CROTHWAITE
Executive Officer

Table 1: Approved Increases to Funding Agency Contributions

Fiscal Year	2005/2006	2006/2007	2007/2008
Total Funding Contribution	\$986,775	\$1,045,982	\$1,087,821
County, City, Special District Share	\$328,925	\$348,661	\$362,609
Percent Increase	6%	6%	4%

BUDGET OVERVIEW

For your Commission's consideration, the proposed FY 2007-2008 LAFCO budget is presented as *Attachment 1* of this staff report. Staff salaries and benefits represent the highest expenditure category, representing approximately 64% of the projected FY 2007-08 expenditures. This is an approximately \$51,000 budget reduction over last year's salaries and benefits category due to the recent office reorganization. In addition staff was able to reduce agency retirement costs in FY 2007-08 by taking advantage of a "prepayment option" offered by the Orange County Retirement System (OCERS). By paying the agency's employer contribution for FY 2007-2008 in advance, LAFCO was eligible to receive a 7.5% discount in the total agency contributions amounting to approximately \$7,500 in annual savings.

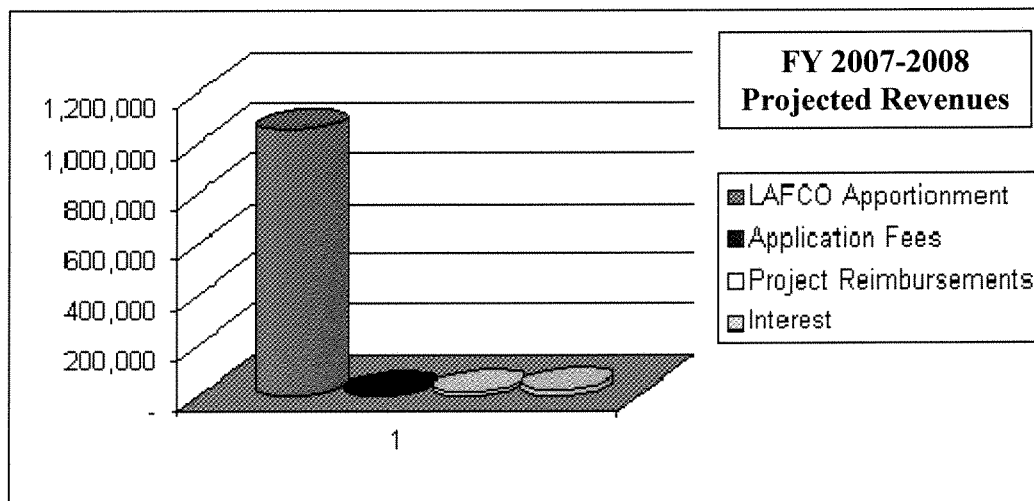


The "Professional and Specialized Services" category represents the largest services and supply account, totaling \$127,000. It includes bookkeeping and accounting/auditing services (\$32,000) and contracted services for legal counsel (\$60,000), human resources (\$10,000) and mapping/GIS/archiving services (\$25,000).

Revenues

Projected FY 2007-2008 LAFCO revenues total \$1,129,821. Ninety-six percent (96%) of the agency's revenue come from contributions from our funding agencies, the County, cities and special districts. Approximately two percent (2%) of the revenue is generated through bank and investment interest. The remaining two percent (2%) is generated through application fees and project reimbursements from applicants.

Although LAFCO converted to a "time and materials" fee schedule in July 2005, very little agency revenue is generated from application fees. This trend is indicative of the changing nature and the type of applications being processed by Orange County LAFCO. The days of large annexations and incorporations within Orange County are, for the most part, behind us. The majority of the applications OCLAFCO processes today are related to Commission-initiated municipal service reviews and sphere of influence updates – projects for which staff time and materials are not reimbursable.



The proposed FY 2007-2008 LAFCO budget identifies expenditures totaling \$1,129,821. Of this amount, \$42,000 is projected to be funded through application fees and interest earnings. The balance, \$1,087,821, is equally divided between the County, cities and special districts, each paying \$362,607. Staff, using the cost allocation formulas previously adopted by the Independent Special Districts of Orange County and the Orange County League of Cities, calculated individual city and special district contributions for the proposed FY 2007-2008 budget. Special district and city contribution summaries are included in *Attachments 3 and 4*, respectively.

City and Special District Allocations

The cities' formula allocates individual city costs based on a formula using the size and population of a city. Large cities with significant populations, such as Anaheim, Irvine and Santa Ana, for example, pay a higher contribution than do smaller cities with less population. Cumulatively, the 34 cities will pay an increase of approximately \$14,000 over the FY 2006-2007 cities' contribution. This increase is spread out among the County's 34 cities. Individual city increases for FY 2007-2008 range from a \$24 increase for the City of Villa Park to approximately \$4,300 for the City of Irvine due to the City's recent annexations and population increase.

The special districts' allocation formula, originally adopted by the Independent Special Districts of Orange County (ISDOC) in 2001 and reaffirmed in August 2005, distinguishes between non-enterprise and enterprise special districts. Non-enterprise districts pay a fixed cost ranging from \$250 to \$2,000 annually. The ISDOC formula for enterprise districts uses a tiered formula based on the districts' operating revenues as reported in the annual State Controller's Report. (State law requires staff to use the most current State Controller's Report available to obtain individual district revenues – for purposes of preparing this budget, staff utilized the *Special Districts Annual Report*, May 11, 2006, prepared by State Controller Steve Westley.)

Based on the ISDOC formula, special districts are placed in one of five categories (A, B, C, D or E) based on the amount of their operating revenues. Each category pays a percentage of the overall LAFCO special district allocation ranging from 1.7% for "A" districts to 10% for "E" districts (see *Table 2* below). The non-enterprise districts' individual allocations are then "weight averaged" so that contributions are proportionately distributed among the districts and do not exceed 100 percent of the total special districts' allocation of \$362,607.

Table 2: Enterprise Special District Allocation Categories

Category	Enterprise Special District Operating Revenues	% Contribution by Each District
A	Less than \$1 million	1.7
B	\$1million - \$5 million	3.7
C	\$5million - \$10 million	5.6
D	\$10 million - \$25 million	7.6
E	\$25 million +	10

Like the cities, the 27 special districts, cumulatively, will pay an increase of approximately \$14,000 over the FY 2006-2007 special districts' contributions. Individual special district allocations for FY 2007-2008 are listed on *Attachment 3*.

CONCLUSION

The proposed LAFCO budget for 2007-08 represents a slight reduction in funding agency contributions from the Commission's previously adopted three-year budget. It reflects the recent reduction in LAFCO's staffing levels but maintains sufficient resources to carry out the Commission's work plan considered in the January 2007 Strategic Plan. Finally, the proposed budget balances revenues and expenditures without relying on project reserves.

RECOMMENDATIONS

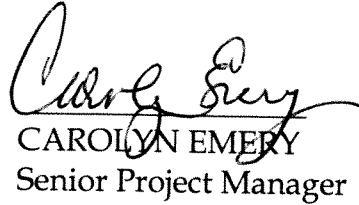
Staff recommends that the Commission:

1. Adopt the Draft FY 2007-2008 Local Agency Formation Commission budget, and direct the Executive Officer to distribute the proposed budget for review and comment to the Board of Supervisors, each city, the City Selection Committee, each independent special district and the Independent Special Districts of Orange County (ISDOC) Selection Committee.
2. Direct staff to schedule an additional public hearing per Government Code Section 56381 for consideration and adoption of the Final FY 2007-2008 LAFCO budget at the May 9, 2007 Commission meeting.

March 14, 2007
RE: Proposed FY 2007-2008 Budget
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Respectfully submitted,


JOYCE CROSTHWAITE
Executive Officer


CAROLYN EMERY
Senior Project Manager


BOB ALDRICH
Assistant Executive Officer

Attachments:

1. *Proposed LAFCO Budget for FY 07-08*
2. *Definitions of Budget Categories*
3. *Special District Cost Allocations for FY 07-08*
4. *City Cost Allocations for FY 07-08*
5. *City Allocation Calculations*

Local Agency Formation Commission
Proposed Budget
Fiscal Year 2007/2008

Attachment 1

	FY 05/06 Actual	FY 06/07 Projected	FY 06/07 Approved Budget	FY 07/08 Proposed Budget
Revenues:				
Prior year's unspent budget	-	-		-
4000 LAFCO Apportionment	986,916	1,045,981	1,045,982	1,087,821
4050 Application Fees	22,650	61,691	18,000	20,000
Project Reimbursements	-	-		-
4200 Interest	18,072	21,993	20,000	22,000
4150 Miscellaneous Revenue	6,313	2,599	-	-
Total Revenues	1,033,951	1,132,264	1,083,982	1,129,821
Expenditures:				
5000 Salaries	516,262	517,631	535,000	500,878
5106 Retirement	104,021	91,926	113,795	107,526
5104 Exec Def Comp	3,614	7,034	3,790	4,135
5108 Health Insurance	50,208	44,592	54,504	45,420
5110 Dental Insurance	4,590	4,010	5,490	4,575
5112 Life Insurance	1,037	910	1,231	1,034
5114 Worker's Comp	6,071	5,112	5,106	6,000
5116 Medicare	6,040	5,660	7,730	7,152
5118 Unemployment Ins	785	592	640	592
5120 Salary Continuance	2,710	2,412	1,793	2,910
5122 Acc Death Ins	189	166	225	189
5124 Other Insurance	742	374		624
5102 Optional Benefit Plan	15,500	15,500	15,500	12,500
Salaries and Benefits	711,769	695,919	744,804	693,535
5150 Information Technology	-	186	4,000	4,000
5151 Telephone	4,047	4,038	1,000	4,200
5200 County charges	3	-	5,000	5,000
5250 Insurance	13,361	16,000	17,277	19,000
5301 Repairs and maintenance	1,623	1,702	3,000	2,000
5302 Utilities	-	-	-	-
5350 Membership	7,753	8,000	10,000	8,500
5400 Municipal Service Reviews	14,901	-	50,000	50,000
5450 Office equipment/supplies	17,070	11,644	20,000	21,000
Professional services:	-	-		
5510 Legal	51,308	55,069	60,000	60,000
5520 Audit/Accounting	22,286	24,946	30,000	32,000
5530 Human Resources	-	8,626	10,000	10,000
5535 Mapping/Archiving	21,352	24,327	20,000	25,000
5540 Other professional	9,627	23,902	10,000	50,000

Local Agency Formation Commission
Proposed Budget
Fiscal Year 2007/2008

Attachment 1

	FY 05/06 Actual	FY 06/07 Projected	FY 06/07 Approved Budget	FY 07/08 Proposed Budget
5550 Investment Admin Fees	3	442	-	
5600 Public Noticing	10,012	10,750	6,000	11,500
5625 Postage	3,728	2,510	2,200	4,561
5650 Rents/Maintenance	39,831	30,654	31,845	33,625
5700 Special Dept Exp	13,100	12,574	26,000	15,900
5750 Staff Training	7,153	4,784	5,000	5,000
5800 Transportation/Travel	19,966	19,808	20,000	23,000
5850 Commission meeting expen:	7,130	7,746	6,000	2,000
Unfunded liability reserve	-	-	-	50,000
Subtotal Services & Supplies	264,254	267,708	337,322	436,286
Total Expenditures	976,023	963,627	1,082,126	1,129,821
Revenues over expenditures	57,928	168,637	1,856	-

Attachment 2

LAFCO Budget Expenditure Categories

The following summarizes what is included in each of the expenditure categories used in the proposed FY 2006-2007 LAFCO Budget:

Salaries and Benefits

These accounts are used to pay for LAFCO employee salaries and benefits, including retirement, unemployment insurance, health and dental insurance, workers compensation and Medicare.

5150 Information Technology

This account is used to pay for the maintenance and repair costs of office computers, modem lines and Internet access. LAFCO contracts with County IT services for this function.

5151 Telephone

Office phone charges are paid out of this account.

5200 County Charges

LAFCO contracts with the County to provide internal “pony” mail service within County departments, payroll services, warehouse storage for LAFCO files and records, and billing and collection of County, city and special district allocations.

5301 Repairs and Maintenance

This account is used to pay for repairs and maintenance to the LAFCO offices.

5350 Membership

CALAFCO and OCLS membership fees are paid out of this account.

5400 Municipal Service Reviews

This account pays for fiscal, environmental and/or facilitation consultants needed for the completion of Municipal Service Reviews.

5450 Office Equipment/Supplies

This category provides for the purchase of computer and office supplies/equipment and software for on-going office automation requirements.

5510 – 5540 Professional Services

This category covers the costs for LAFCO legal counsel through the law offices of Best, Best & Krieger and bookkeeping and accounting services through Conrad Business Services, Inc. This account also pays for a certified public accounting firm to conduct mandated annual audits of LAFCO’s financial statements and consultant assistance to implement LAFCO’s archiving and GIS mapping programs.

5600 Public Noticing

Legal publication costs for Commission-initiated projects (e.g., municipal service reviews, annual budget adoption, etc.) are paid through Account 5600.

5625 Postage

This account pays for mail postage when distributing LAFCO correspondence, invoices, letters, staff reports and other documents.

5650 Office Rent & Leases

LAFCO leases its office space from the County. LAFCO also leases a copier and postage meter. Office rent and lease payments for the copier and postage meter are paid out of this account.

5700 Special Department Expense

This account pays for Commissioner meeting stipends, mileage, parking, and staff training expenses.

5800 Transportation/Travel/Registration

Funds from this account category are used to pay for registration and travel expenses for commissioners and staff to the CALAFCO annual conference and the CALAFCO annual workshop.

5850 Commission Meeting Expenses

Funds to pay for coffee, water, nameplates and other miscellaneous items used during Commission meetings are paid for out of this fund.

LAFCO (FY 2007-2008)
Independent Special District Cost Allocations

Attachment 3

District	07/08Category	Percent	2006-07 LAFCO Cost	2007-08 LAFCO Cost
Rossmoor/Los Alamitos Sewer	N-E 2	--	\$500	\$500
Silverado-Modjeska Rec. & Park	N-E 2	--	\$500	\$500
Surfside Colony Stormwater	N-E 2	--	\$250	\$500
Surfside Colony CSD	N-E 2	--	\$250	\$500
Capistrano Bay CSD	N-E 3	--	\$500	\$1,000
Rossmoor CSD	N-E 3	--	\$500	\$1,000
Buena Park Library	N-E 4	--	\$2,000	\$2,000
Orange County Cemetery	N-E 4	--	\$2,000	\$2,000
Orange County Vector Control	N-E 4	--	\$2,000	\$2,000
Placentia Library	N-E 4	--	\$1,000	\$2,000
Three Arch Bay CSD	N-E 4	--	\$1,000	\$2,000
Emerald Bay CSD	A	1.7	\$4,178.61	\$5,387.56
Sunset Beach Sanitary	A	1.7	\$4,178.61	\$5,387.56
Midway City Sanitary	B	3.7	\$10,731.83	\$11,725.87
Serrano Water	B	3.7	\$10,731.83	\$11,725.87
Costa Mesa Sanitary	C	3.7	\$16,957.39	\$17,747.27
East Orange County Water	C	3.7	\$16,957.39	\$17,747.27
El Toro Water & Sewer	D	7.6	\$23,510.61	\$24,085.57
Mesa Consolidated Water	D	7.6	\$23,510.61	\$24,085.57
South Coast Water & Sewer	D	5.6	\$23,510.61	\$24,085.57
Trabuco Canyon Water & Sewer	D	3.7	\$23,510.61	\$24,085.57
Yorba Linda Water & Sewer	D	5.6	\$23,510.61	\$24,085.57
Irvine Ranch Water & Sewer	E	10	\$31,374.47	\$31,691.55
Moulton Niguel Water & Sewer	E	10	\$31,374.47	\$31,691.55
MWD OC Water	E	10	\$31,374.47	\$31,691.55
OCWD Water	E	10	\$31,374.47	\$31,691.55
Santa Margarita Water & Sewer	E	10	\$31,374.47	\$31,691.55
Total			\$348,661.06	362,607.00

LAFCO (FY 2007-2008)
City Allocations

Attachment 4

<i>City</i>	<i>FY 06-07 City Allocation</i>	<i>FY 07-08 City Allocation</i>
Aliso Viejo	\$5,145.62	\$5,287.62
Anaheim	\$38,874.34	\$39,773.89
Brea	\$5,667.21	\$5,791.32
Buena Park	\$8,738.22	\$9,022.89
Costa Mesa	\$12,538.12	\$12,883.46
Cypress	\$5,451.40	\$5,611.04
Dana Point	\$4,466.84	\$4,585.22
Fountain Valley	\$6,739.39	\$6,937.15
Fullerton	\$15,917.61	\$16,436.97
Garden Grove	\$17,742.16	\$18,261.76
Huntington Beach	\$22,159.75	\$22,834.55
Irvine	\$26,975.16	\$31,231.05
Laguna Beach	\$3,756.03	\$3,852.39
Laguna Hills	\$4,142.21	\$4,255.69
Laguna Niguel	\$8,594.76	\$8,834.78
Laguna Woods	\$2,141.69	\$2,200.36
La Habra	\$6,568.47	\$6,767.74
Lake Forest	\$10,017.17	\$10,280.16
La Palma	\$1,735.06	\$1,784.43
Los Alamitos	\$1,930.55	\$1,979.11
Mission Viejo	\$11,757.57	\$12,075.74
Newport Beach	\$12,327.45	\$12,668.66
Orange	\$16,309.93	\$17,145.36
Placentia	\$5,499.37	\$5,737.91
Rancho Santa Margarita	\$6,889.70	\$7,062.98
San Clemente	\$9,281.32	\$9,603.89
San Juan Capistrano	\$6,069.56	\$6,218.97
Santa Ana	\$34,159.82	\$35,205.36
Seal Beach	\$4,783.99	\$4,894.25
Stanton	\$3,789.57	\$3,904.46
Tustin	\$8,131.99	\$8,441.81
Villa Park	\$972.09	\$995.80
Westminster	\$9,651.70	\$9,956.05
Yorba Linda	\$9,735.18	\$10,084.17
TOTALS	\$348,661.00	\$362,607.00

FY 2007-2008 City Allocation Calculations

City	Jan. 1, 2004 Population ¹	Area Sq. Miles	2/3rd Allocation Based on Population	%	1/3rd Allocation Based on Sq. Miles	%	Combined City Allocation
Aliso Viejo	43,879	6.9	\$ 3,697.04	1.52%	\$ 1,590.58	1.33%	\$5,287.62
Anaheim	337,440	50.3	\$ 28,178.76	11.60%	\$ 11,595.13	9.69%	\$39,773.89
Brea	37,962	11.0	\$ 3,255.61	1.34%	\$ 2,535.71	2.12%	\$5,791.32
Buena Park	80,617	10.1	\$ 6,694.65	2.76%	\$ 2,328.25	1.95%	\$9,022.89
Costa Mesa	111,512	15.5	\$ 9,310.41	3.83%	\$ 3,573.05	2.99%	\$12,883.46
Cypress	47,644	6.9	\$ 4,020.46	1.65%	\$ 1,590.58	1.33%	\$5,611.04
Dana Point	36,247	6.8	\$ 3,017.69	1.24%	\$ 1,567.53	1.31%	\$4,585.22
Fountain Valley	56,268	9.6	\$ 4,724.17	1.94%	\$ 2,212.99	1.85%	\$6,937.15
Fullerton	131,574	22.6	\$ 11,227.23	4.62%	\$ 5,209.74	4.35%	\$16,436.97
Garden Grove	169,911	17.9	\$ 14,135.47	5.82%	\$ 4,126.30	3.45%	\$18,261.76
Huntington Beach	196,954	27.3	\$ 16,541.37	6.81%	\$ 6,293.18	5.26%	\$22,834.55
Irvine	164,923	66.3	\$ 15,947.61	6.56%	\$ 15,283.44	12.77%	\$31,231.05
Laguna Beach	24,589	7.8	\$ 2,054.34	0.85%	\$ 1,798.05	1.50%	\$3,852.39
Laguna Hills	32,875	6.6	\$ 2,734.26	1.13%	\$ 1,521.43	1.27%	\$4,255.69
Laguna Niguel	65,092	14.7	\$ 5,446.14	2.24%	\$ 3,388.64	2.83%	\$8,834.78
Laguna Woods	18,208	3.0	\$ 1,508.80	0.62%	\$ 691.56	0.58%	\$2,200.36
La Habra	61,188	7.3	\$ 5,084.95	2.09%	\$ 1,682.79	1.41%	\$6,767.74
Lake Forest	77,332	16.8	\$ 6,407.44	2.64%	\$ 3,872.73	3.24%	\$10,280.16
La Palma	15,954	2.0	\$ 1,323.39	0.54%	\$ 461.04	0.39%	\$1,784.43
Los Alamitos	11,817	4.3	\$ 987.87	0.41%	\$ 991.23	0.83%	\$1,979.11
Mission Viejo	98,943	17.4	\$ 8,064.70	3.32%	\$ 4,011.04	3.35%	\$12,075.74
Newport Beach	79,987	25.2	\$ 6,861.87	2.82%	\$ 5,806.78	4.85%	\$12,668.66
Orange	134,523	25.2	\$ 11,336.27	4.67%	\$ 5,809.09	4.85%	\$17,145.36
Placentia	49,097	6.6	\$ 4,216.49	1.74%	\$ 1,521.43	1.27%	\$5,737.91
Rancho Santa Margarita	48,810	13.1	\$ 4,043.17	1.66%	\$ 3,019.80	2.52%	\$7,062.98
San Clemente	60,701	18.0	\$ 5,454.54	2.25%	\$ 4,149.35	3.47%	\$9,603.89
San Juan Capistrano	35,215	14.1	\$ 2,968.64	1.22%	\$ 3,250.32	2.72%	\$6,218.97
Santa Ana	347,237	27.3	\$ 28,912.18	11.90%	\$ 6,293.18	5.26%	\$35,205.36
Seal Beach	24,921	12.2	\$ 2,081.91	0.86%	\$ 2,812.34	2.35%	\$4,894.25
Stanton	38,411	3.1	\$ 3,189.85	1.31%	\$ 714.61	0.60%	\$3,904.46
Tustin	69,754	11.0	\$ 5,906.09	2.43%	\$ 2,535.71	2.12%	\$8,441.81
Villa Park	6,206	2.1	\$ 511.71	0.21%	\$ 484.09	0.40%	\$995.80
Westminster	90,643	10.2	\$ 7,604.75	3.13%	\$ 2,351.30	1.96%	\$9,956.05
Yorba Linda	62,678	19.9	\$ 5,496.84	2.26%	\$ 4,587.34	3.83%	\$10,084.17
TOTALS	2,952,130	519.1	\$ 242,946.69	100.00%	\$ 119,660.31	100.00%	\$362,607.00

Population: California Department of Finance/Demographic Research Unit

Sq. Miles: County Geomatics-LIS